

Message Text

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ACTION ARA-10

INFO OCT-01 ISO-00 SP-02 AID-05 EB-07 NSC-05 RSC-01

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COME-00 FRB-01 INR-07 NSAE-00 XMB-02 OPIC-03 LAB-04

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TO SECSTATE WASHDC 7218

INFO AMEMBASSY BRIDGETOWN

AMEMBASSY GEORGETOWN

AMEMBASSY KINGSTON

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E.O. 11652: N/A

TAGS: EFIN, TD

SUBJ: THE 1975 BUDGET: A GOTT CHRISTMAS GIFT?

REF: POS 2971; CERP 0200

SUMMARY:

THE GOTT HAS PRESENTED A \$650 MILLION (ALL FIGURES IN U.S. DOLLARS) 1975 BUDGET WHICH EMPHASIZES USE OF OIL REVENUE TO FINANCE AGRICULTURAL DEVELOPMENT, EMPLOYMENT CREATION, COST-OF-LIVING SUBSIDIES, AND TAX RELIEF FOR LOW-AND MIDDLE-INCOME CITIZENS. OF THE CONSERVATIVELY-ESTIMATED \$350 MILLION IN ANTICIPATED "WINDFALL" OIL REVENUES, ABOUT 35 PERCENT WILL BE DEVOTED TO THE PRECEDING GOALS, WHILE ANOTHER 35 PERCENT WILL BE USED TO FUND GOVERNMENT PARTICIPATION IN PLANNED MAJOR INDUSTRIAL PROJECTS. ALTHOUGH THE GOTT IS TRYING TO MINIMIZE THE INFLATIONARY IMPACT OF PETROLEUM REVENUE, THIS LEVEL OF SPENDING--TOGETHER WITH A RECENT ROUND OF SIZABLE WAGE INCREASES IN MANY SECTORS OF THE ECONOMY--IN AN IMPORT-DEPENDENT COUNTRY SEEMS LIKELY TO

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KEEP THE CONSUMER PRICE INDEX AT ITS CURRENT 20-PERCENT-PLUS

ANNUAL RATE OF INCREASE. THE BUDGET IS COHERENT AND SENSIBLE, BUT IT OFFERS LITTLE FOR THE ECONOMICALLY DISFAVORED AND THE UNEMPLOYED (NOW OFFICIALLY SAID TO BE 17 PERCENT OF THE LABOR FORCE), EXCEPT A FEW STIMULI FOR JOB CREATION. A NOTABLE DANGER IS THAT THE POORER TRINIDADIAN WILL NEVER PERCEIVE THAT THE BENEFITS OF THE GOTT'S OIL REVENUE ARE REALLY TRICKLING DOWN THROUGH THE ECONOMY TO THE BENEFIT OF ALL. END SUMMARY.

1. REVENUE: THE GOTT'S 1975 BUDGET PRESENTATION ON DECEMBER 20 ANNOUNCED ACROSS-THE-BOARD PERSONAL INCOME TAX REDUCTIONS FOR ALL OF TRINIDAD'S 120,000 TAXPAYERS, INCLUDING A HIGHLY PROGRESSIVE TAX REBATE SCHEME IN WHICH A TYPICAL LOW-INCOME FAMILY OF FIVE EARNING \$3,500 PER ANNUM WILL HENCEFORWARD PAY NO TAXES AT ALL. PURCHASE TAXES ON LOCALLY ASSEMBLED MOTOR VEHICLES, REFRIGERATORS, STOVES AND LOCALLY MANUFACTURED GARMENTS WERE ALSO REDUCED. ON THE OTHER END OF THE SCALE, THE CORPORATE PROFITS TAX FOR PETROLEUM COMPANIES WAS INCREASED FROM 47-1/2 PERCENT TO 50 PERCENT, WHILE NO CHANGE WAS MADE IN THE HIGHLY UNPOPULAR "UNEMPLOYMENT LEVY." (THIS LEVY AMOUNTS TO AN ADDITIONAL 5 PERCENT TAX ON ALL TAXABLE INCOMES IN EXCESS OF \$5,000. A LOWER-COURT JUDGE RECENTLY FOUND THE LEVY TO BE UNCONSTITUTIONAL, BUT THE GOTT IS APPEALING HIS RULING.) ACCORDING TO GOTT ESTIMATES, INCOME TAX RECEIPTS (LARGELY FROM PETROLEUM COMPANIES) WILL TOTAL ABOUT \$410 MILLION IN 1975, WHILE ROYALTIES WILL PROVIDE \$75 MILLION, CAPITAL RECEIPTS \$40 MILLION, AND ALL OTHER SOURCES ABOUT \$125 MILLION FOR TOTAL REVENUE OF \$650 MILLION (A SHARP CONTRAST WITH THE \$250 MILLION IN TOTAL RECEIPTS AS RECENTLY AS 1973).

2. EXPENDITURE: 1975 EXPENDITURE BY THE GOTT IS ESTIMATED AT \$650 MILLION, ALMOST EXACTLY EQUALLING ANTICIPATED REVENUE. ABOUT \$100 MILLION WILL BE DEVOTED TO GENERAL DEVELOPMENT EXPENDITURE, WHILE AN ADDITIONAL \$160 MILLION WILL BE DEPOSITED IN SPECIAL FUNDS FOR AGRICULTURAL AND INDUSTRIAL DEVELOPMENT (TO BE USED LARGELY TO FINANCE GOTT PARTICIPATION IN JOINT-VENTURE PROJECTS). THE GOTT HAS ALSO BUDGETED ABOUT \$50 MILLION IN SUBSIDIES TO HOLD DOWN THE PRICES OF CERTAIN BASIC COMMODITIES (GASOLINE, FLOUR, RICE, POULTRY LIMITED OFFICIAL USE

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FEED, EDIBLE OILS). (AS A RESULT, A (U.S.) GALLON OF PREMIUM GASOLINE WILL CONTINUE TO COAST ABOUT 30 U.S. CENTS IN TRINIDAD AND TOBAGO.) AS USUAL, THE SINGLE LARGEST CATEGORY OF EXPENDITURE IN THE NEW BUDGET IS THE PAYMENT OF WAGES, SALARIES AND FRINGE BENEFITS TO GOTT CIVIL SERVANTS, WHICH ARE EXPECTED TO COST \$230 MILLION.

3. AGRICULTURAL DEVELOPMENT: CENTRAL TO THE GOTT'S BUDGET THEME

ARE MEASURES TO INCREASE FOOD PRODUCTION AND SUPPORT AGRICULTURAL DEVELOPMENT AND DIVERSIFICATION. THE GOTT HAS EMBARKED UPON AN AMBITIOUS AND CONTROVERSIAL SUGAR STABILIZATION FUND, TO BE FINANCED BY EXPORT LEVIES AND AN EXCESS PROFITS TAX WHEN WORLD SUGAR PRICES ARE HIGH, THE PROCEEDS FROM WHICH ARE TO BE USED TO CUSHION EFFECTS OF FALLING PRICES ON CANE FARMERS IN THE FUTURE, TO INCREASE FOOD PRODUCTION, TO HELP MODERNIZE THE INDUSTRY, AND TO PROVIDE OTHER BENEFITS TO SUGAR WORKERS AND CANE FARMERS. TO ENCOURAGE DOMESTIC FOOD PRODUCTION, THE GOTT WILL CONTINUE TO PROVIDE PRICE SUBSIDIES FOR RICE, FLOUR, AND EDIBLE OILS, AS WELL AS EITHER CASH OR FERTILIZER SUBSIDIES FOR SUCH CROPS AS CITRUS, COCOA, COFFEE AND SUGAR. TO KEEP POULTRY PRICES AT RELATIVELY LOW COSTS TO CONSUMERS, THE PRICE OF POULTRY FEEDS (LARGELY DEPENDENT ON IMPORTED CORN AND SOYA MEAL) WILL CONTINUE TO BE CONTROLLED AND WILL BE ADDED TO THE CURRENT LIST OF SUBSIDIZED ITEMS. ALTHOUGH NOT YET ANNOUNCED, INDUSTRY SOURCES INDICATE POULTRY FEEDS WILL BE SUBSIDIZED BY ABOUT 16 PERCENT OF CURRENT PRICES. AGRICULTURAL CREDIT AND MARKETING FACILITIES ARE TO BE IMPROVED, AND GREATER FUNDS WILL BE DEVOTED TO THE FOOD DEVELOPMENT FUND AND THE FISHERIES DEVELOPMENT FUND. DIESEL FUEL FOR LOCALLY-OWNED SHRIMP BOATS WILL NOW BE SUBSIDIZED AT A PRICE OF 30 U.S. CENTS PER IMPERIAL GALLON. (THIS SUBSIDY WILL ALSO BE EXTENDED TO NOT MORE THAN 45 FOREIGN SHRIMP BOATS WHICH AGREE TO SUPPLY THEIR TOTAL CATCH TO THE GOTT-OWNED PROCESSING PLANT.)

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CIEP-01 TRSE-00 SS-15 STR-01 OMB-01 CEA-01 CIAE-00

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4. COMMENT: THE GOTT IS TRYING HARD TO INSULATE THE TRINIDAD ECONOMY FROM THE INFLATIONARY EFFECTS OF THE NEARLY THREE-FOLD INCREASE IN CENTRAL GOVERNMENT REVENUE OVER THE PAST TWO YEARS, BUT THE RAPID INCREASE IN INDUSTRIAL COUNTRIES' INFLATION RATES HAS OF COURSE BEEN REFLECTED THROUGHOUT THIS IMPORT-DEPENDENT ECONOMY. FOR THE PAST FOURTEEN MONTHS, INCREASES IN THE CONSUMER PRICE INDEX (CPI) HAVE EXCEEDED 20 PERCENT(ON AN ANNUAL BASIS), FOLLOWING MANY YEARS OF RELATIVE PRICE STABILITY. AS A RESULT, NEITHER THE GOTT NOR OTHER LARGE EMPLOYERS HAVE BEEN ABLE TO CONTAIN PRESSURE FOR WAGE INCREASES, AND THE GOTT ITSELF RECENTLY GAVE ITS 33,000 CIVIL SERVANTS PAY RAISES RANGING FROM 35 TO 45 PERCENT OVER A THREE-YEAR PERIOD, WITH THE BULK OF THE INCREASES RETROACTIVE TO JANUARY 1974. MORE AND MORE LABOR CONTRACTS NOW CONTAIN COST-OF-LIVING ESCALATOR CLAUSES TIED TO THE CPI, WHICH WILL PROVIDE MORE FUEL TO TRINIDAD'S INFLATIONARY SPIRAL. UNLESS THE WAGE-EARNING SECTOR OF THE TRINIDAD PUBLIC PERCEIVES THAT THE GOTT'S SUBSIDIES AND INCENTIVES ACTUALLY WILL CONTRIBUTE TO LESSENING THE INFLATION RATE, WAGE-PUSH PRESSURES TOGETHER WITH LIMITED OFFICIAL USE

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"IMPORTED INFLATION" WILL CERTAINLY KEEP PRICE INFLATION AT THE OVER-20 PERCENT LEVEL DURING THE COMING YEAR.

5. THERE IS LITTLE EVIDENCE YET THAT ANY SIGNIFICANT PROPORTION OF TRINIDAD'S OIL REVENUE WINDFALL WILL ACTUALLY TRICKLE DOWN TO THE GROWING NUMBER OF UNEMPLOYED AND OTHER DISADVANTAGED TRINIDADIANs. OFFICIAL GOTT FIGURES NOW ESTIMATE THAT 66,000 INDIVIDUALS, OR 17 PERCENT OF TRINIDAD'S LABOR FORCE, ARE UNEMPLOYED, AND NEARLY TWO-THIRDS OF THESE PEOPLE ARE BETWEEN AGES 15 AND 24. STIMULI OFFERED TO LOCAL INDUSTRY THROUGH PURCHASE TAX REDUCTIONS AND EMPLOYMENT ALLOWANCES ARE UNLIKELY TO CREATE MORE THAN A FEW HUNDRED JOBS, MANY OF WHICH ARE NOT TRULY NEW BUT INVOLVE REHIRING LAID-OFF EMPLOYEES. PLANNED INDUSTRIAL EXPANSION COULD PROVE TO BE A MAJOR SOURCE OF NEW JOB OPPORTUNITIES, BUT FEW ARE LIKELY TO MATERIALIZE UNTIL SEVERAL YEARS FROM NOW. THUS A CENTRAL NEAR-TERM QUESTION FOR THE GOTT IS HOW TO CONTAIN PRESSURES FROM THE JOBLESS, WHO DO NOT PERCEIVE THAT ANY BENEFITS FROM THE OIL BONANZA OR THE MUCH-TALKED-ABOUT INDUSTRIALIZATION PROJECTS ARE YET REACHING THEM.

6. REACTION TO THE BUDGET SPEECH HAS BEEN PREDICTABLE: THE PNM-DOMINATED PARLIAMENT APPROVED IT UNCHANGED AFTER A DAY'S DESULTORY DEBATE; WHILE THE SENATE (RECENTLY ENLIVENED BY THE PRESENCE OF FOUR NEW OPPOSITION MEMBERS) LISTENED TO STRONG CRITICISM BUT THE PNM MAJORITY ENSURED PROMPT PASSAGE. SENATE OPPOSITION LEADER (AND ECONOMICS PROFESSOR) LLOYD BEST LED THE TAPIA GROUP'S CRITICISM OF THE BUDGET, URGING THE NATIONALIZATION OF MANY FOREIGN-OWNED BUSINESSES, AN INCREASE IN TAX RATES ON PETROLEUM COMPANIES TO 85 PERCENT, AND INSTITUTION OF A WIDESPREAD WELFARE SYSTEM. BEST'S COLLEAGUES ATTACKED THE GOTT BUDGET AS A "TEXTBOOK CASE," LACKING IMAGINATION, WEAK IN LONG-RANGE PLANNING, AND A USE OF 1964'S SOLUTIONS FOR 1974' PROBLEMS. INDEPENDENT SENATOR (AND SPOKESMAN FOR BUSINESS INTERESTS) THOMAS GATCLIFFE REJECTED THE TAPIA GROUP'S CRITICISM, BUT WENT ON TO CHIDE THE GOTT FOR NOT MAKING FULL USE OF THE PRIVATE SECTOR, WHICH HE SAID COULD BE STIMULATED BY ABOLITION OF THE UNEMPLOYMENT LEVY AND A GENERAL REDUCTION OF THE LIMITED OFFICIAL USE

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CORPORATE TAX RATE TO 40 PERCENT. CANE FARMERS HAVE OPPOSED THE PROPOSED SUGAR PRICE STABILIZATION FUND, SAYING THEY WANT TO RECEIVE ALL BENEFITS OF HIGHER PRICES NOW, AND THAT OIL REVENUE SHOULD BE USED TO KEEP FARMERS' PRICES HIGH IF AND WHEN WORLD MARKET PRICES DROP. OTHER PUBLIC REACTION HAS VARIED ACCORDING TO THE SPECIAL INTEREST GROUPS INVOLVED, LEAVING THE GENERAL IMPRESSION THAT THE 1975 BUDGET INDEED CONTAINS SOMETHING FOR EVERYONE, THOUGH CLEARLY NOT ENOUGH FOR ANYONE.
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